

ROBERT L. FLETCHER

<p style="text-align: right;">Page 174</p> <p>1 A. The fact that it's on the agenda or the fact of 2 this written notes? 3 Q. How about both? 4 A. Both? 5 Q. These notes are on an agenda for that board 6 meeting. 7 A. Right. I don't have a specific recollection of 8 that. 9 Q. How about a general one? 10 A. Generally I would say -- have to say if I were 11 at the meeting and it's on the agenda, that I 12 must have some -- I must have been there. I 13 don't have a recollection. 14 Q. But you don't have any independent 15 recollection? I'm sorry, go ahead, sir. 16 A. I do not have a recollection of the 17 discussions. 18 Q. Do you know whose handwriting is on this 19 document by any chance? 20 A. I do not. It is not mine. 21 Q. You discussed a little bit today the 22 termination of some of AHERF's senior managers. 23 Do you remember that discussion? 24 A. Yes. 25 Q. And one of those was Mr. Abdelhak?</p>	<p style="text-align: right;">Page 176</p> <p>1 about whether Mr. Abdelhak should be 2 terminated? 3 A. Yes. 4 Q. Take a look at the second page. There are a 5 series of resolutions on there. Do you see 6 that? 7 A. Yes. 8 Q. And the first one, you can peruse that, let me 9 know if I'm incorrect in paraphrasing it, 10 resolved to remove Mr. Abdelhak as the 11 executive of AHERF; is that right? 12 A. Yes. 13 Q. And what do you recall about discussions about 14 Mr. Abdelhak's termination? 15 MR. FRIESEN: Objection. You mean at 16 this meeting? 17 MR. UNICE: Yes, sir. 18 A. Specifically nothing. Generally a lack of 19 performance. 20 Q. Can you explain that to me, what you mean by a 21 lack of performance, if you do recall anything 22 other than that? 23 A. Well, two things: One, that things were not 24 working as anticipated by his -- by his own 25 reporting; two, that the financial situation of</p>
<p style="text-align: right;">Page 175</p> <p>1 A. Yes. 2 Q. Do you recall when that happened? 3 A. Around the early part of June of 1998. 4 Q. I'm going to hand you another document which 5 will be 1993. 6 ---- 7 (Exhibit 1993 marked for identification.) 8 ---- 9 Q. It's Bates labeled RF 1041 through 1044, and 10 it's noted as being an agenda for the 6/5/98 11 meeting of the executive committee of the AHERF 12 board. 13 Do you recognize this document, 14 Mr. Fletcher, as one that has come from your 15 files? 16 A. Yes. 17 Q. You will note on the front, the first page 18 lists you as a member of the executive 19 committee? 20 A. Yes. 21 Q. Do you recall attending a meeting of the AHERF 22 board on 6/5 -- I'm sorry, the executive 23 committee of the AHERF board on 6/5/98? 24 A. Yes. 25 Q. Do you recall any discussions at that meeting</p>	<p style="text-align: right;">Page 177</p> <p>1 the enterprise was seriously in trouble. 2 Q. Do you recall any discussions about 3 Mr. Abdelhak's termination occurring at the 4 executive committee level prior to the 6/5/98 5 meeting? 6 A. No. 7 Q. Do you recall those kinds of discussions any 8 other committee or board meeting at which you 9 were present before the 6/5/98 meeting? 10 A. No. 11 Q. Now, did the members of the executive committee 12 vote at that meeting whether or not they should 13 fire Mr. Abdelhak? Was there a vote taken? 14 A. I don't remember. 15 Q. Do you recall how you felt in terms of whether 16 or not he should be let go? 17 A. Yes. 18 Q. What was your view? 19 A. He should be let go. 20 Q. The reasons you set forth? 21 A. Yes. 22 Q. Any other reasons besides the ones you've told 23 me today, and Mr. Friesen? 24 A. No, not anything material. 25 Q. What do you mean by material?</p>

ROBERT L. FLETCHER

<p style="text-align: right;">Page 178</p> <p>1 MR. McCLENAHAN: Go ahead, you can 2 answer the question. 3 A. Well -- 4 MR. McCLENAHAN: Didn't we already 5 define material earlier in the -- your 6 questioning? 7 MR. UNICE: I think the discussion 8 about materiality earlier was with respect to 9 financial statements. 10 THE WITNESS: Yes, but that -- yes, 11 set that aside. 12 MR. UNICE: So we really didn't, and 13 now he said it. 14 BY MR. UNICE: 15 Q. So go ahead. 16 A. The two things I mentioned were sufficiently 17 general and sufficiently fulfilled by 18 malperformance that there was really no other 19 need to introduce other things that might have 20 been material because they would have been 21 contained within the two things I mentioned. 22 Q. Did you have any personal interaction with 23 Mr. Abdelhak -- 24 A. No. 25 Q. -- after the decision to terminate him on --</p>	<p style="text-align: right;">Page 180</p> <p>1 left, to allay any heartburn we have here, of 2 each page, page 2 follows 3 to 10 and the 3 signature page. 4 MR. FRIESEN: Okay. 5 BY MR. UNICE: 6 Q. Just a few questions about this document. 7 A. Mm-hmm. 8 Q. First, do you recall attending an AHERF board 9 meeting on 4/5/97? 10 A. Yes. 11 Q. And do you see you are marked as a member being 12 present at this meeting? 13 A. Yes. 14 Q. I only have a question about one topic of 15 discussion. If you'll turn to me -- turn with 16 me to page 6, top left-hand corner of this 17 document. 18 A. All right. 19 MR. McCLENAHAN: Page 6 of the Bates 20 number? 21 MR. UNICE: No, I'm sorry, David, 22 page 6 of the top left-hand corner. I want to 23 avoid the Bates numbers for confusion purposes. 24 Q. Item V is a -- states report from the audit 25 committee that also references a Coopers &amp;</p>
<p style="text-align: right;">Page 179</p> <p>1 A. No. 2 Q. -- 6/5/98? 3 A. No. 4 ---- 5 (Exhibit 1994 marked for identification.) 6 ---- 7 Q. The court reporter just gave you what's been 8 marked Exhibit 1994, appear to be minutes for a 9 4/5/97 AHERF board meeting, and they span Bates 10 pages GOV 61996 to 62085, but I will represent 11 that those numbers aren't consecutive, if you 12 look at the document, they skip around. I'll 13 also represent that this is the entire set of 14 unsigned minutes that we received. 15 MR. FRIESEN: Let me just get this 16 clear. 17 MR. UNICE: Yeah. 18 MR. FRIESEN: Did you put this 19 together in page number order and it wasn't -- 20 the Bates numbering was -- it wouldn't have 21 been in page number order if you had kept it in 22 Bates number order? 23 MR. UNICE: This is how it was given 24 to me, so I don't know who actually put it in 25 the precise order, but if you look at the top</p>	<p style="text-align: right;">Page 181</p> <p>1 Lybrand proposed AHERF audit plan for fiscal 2 year '97. Do you see that? 3 A. Now, wait, you are on page 6? 4 Q. Top left-hand corner. 5 MR. McCLENAHAN: He means this page 6 6 (indicating). 7 A. Okay. All right. I was on the right page to 8 begin with. All right. 9 Q. I'm sorry for the confusion there. Are you 10 there with me? 11 A. Yes. 12 Q. And do you see item V I just referenced, 13 report? 14 A. Yes. 15 Q. Okay. And there's a resolution below that to 16 approve the C &amp; L proposed AHERF audit plan for 17 fiscal '97 as presented? Did I read that 18 correctly? 19 A. Yes. 20 Q. Do you have any recollection of any discussions 21 at the 4/5/97 board meeting regarding Coopers' 22 proposed '97 audit plan? 23 A. No. 24 Q. Can you explain to me if you recall how that 25 plan was explained generally to the board?</p>

ROBERT L. FLETCHER

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1 internal loan committee?  
 2 A. Ask the question again.  
 3 Q. Sure.  
 4 A. Because I'm not sure I heard.  
 5 Q. What was it about moving funds from AGH, as you  
 6 just mentioned, that led to the formation of  
 7 the internal loan committee?  
 8 A. Well, there were -- there were funds that were  
 9 transferred from AGH's, if you were to look at  
 10 their financial statement, there were funds  
 11 that were transferred from AGH to the east and  
 12 had no approval by any committee or board of  
 13 the -- of AHERF.  
 14 Q. How did you learn about those transfers?  
 15 A. I presume that I --  
 16 MR. McCLENAHAN: Don't presume. Do  
 17 you know? Do you recall?  
 18 Q. Without speculating.  
 19 A. Okay. Yeah, I don't recall really.  
 20 Q. Okay. After the formation of the internal loan  
 21 committee, having discussed it now a little  
 22 bit, do you recall whether or not that  
 23 committee actually convened a meeting?  
 24 A. I don't recall that there was ever a meeting.  
 25 Q. And do you recall the magnitude or amount of

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1 funds that you are referencing that went from  
 2 AGH to the east?  
 3 A. Specifically, no.  
 4 Q. Or generally? Do you recall a range of an  
 5 amount?  
 6 A. It was more than a million.  
 7 Q. Any other parameters you can put on that for  
 8 me?  
 9 A. (Shaking head side to side.)  
 10 Q. Is that a no?  
 11 A. That's a no.  
 12 MR. UNICE: I'm finished.  
 13 MR. FRIESEN: I don't have any  
 14 questions.  
 15 THE WITNESS: Okay.  
 16 THE VIDEOGRAPHER: If there are no  
 17 further questions. This deposition is  
 18 concluded. We are now going off the record.  
 19 The time is 3:10 p.m.  
 20 ----  
 21 (The proceedings were concluded at 3:10 p.m.)  
 22 ----  
 23  
 24  
 25

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1 COMMONWEALTH OF PENNSYLVANIA ) CERTIFICATE  
 2 COUNTY OF ALLEGHENY ) SS:  
 3 I, Heidi H. Willis, RPR, CRR, a Court Reporter  
 4 and Notary Public in and for the Commonwealth of  
 5 Pennsylvania, do hereby certify that the witness,  
 6 ROBERT L. FLETCHER, was by me first duly sworn to  
 7 testify to the truth; that the foregoing deposition  
 8 was taken at the time and place stated herein; and  
 9 that the said deposition was recorded  
 10 stenographically by me and then reduced to printing  
 11 under my direction, and constitutes a true record of  
 12 the testimony given by said witness.  
 13 I further certify that the inspection, reading  
 14 and signing of said deposition were NOT waived by  
 15 counsel for the respective parties and by the  
 16 witness.  
 17 I further certify that I am not a relative or  
 18 employee of any of the parties, or a relative or  
 19 employee of either counsel, and that I am in no way  
 20 interested directly or indirectly in this action.  
 21 IN WITNESS WHEREOF, I have hereunto set my hand  
 22 and affixed my seal of office this 18th day of  
 23 September, 2003.  
 24 \_\_\_\_\_  
 25 Notary Public

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1 COMMONWEALTH OF PENNSYLVANIA ) E R R A T A  
 2 COUNTY OF ALLEGHENY ) S H E E T  
 3 I, Robert L. Fletcher, have read the foregoing  
 4 pages of my deposition given on Monday, September 15,  
 5 2003, and wish to make the following, if any,  
 6 amendments, additions, deletions or corrections:  
 7 Page/Line Should Read Reason for Change  
 8  
 9  
 10  
 11  
 12  
 13  
 14  
 15  
 16  
 17  
 18  
 19 In all other respects, the transcript is true and  
 20 correct.  
 21 \_\_\_\_\_  
 22 ROBERT L. FLETCHER  
 23 Subscribed and sworn to before me this  
 24 \_\_\_\_\_ day of \_\_\_\_\_, 2003.  
 25 \_\_\_\_\_  
 Notary Public  
 AKF Reference No. HW77235

ROBERT L. FLETCHER

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AKF REPORTERS, INC.  
AKF Building  
436 Boulevard of the Allies  
Pittsburgh, PA 15219  
(412) 261-2323

September 18, 2003

TO: David McClenahan, Esq.

RE: DEPOSITION OF ROBERT L. FLETCHER  
NOTICE OF NON-WAIVER OF SIGNATURE

Please have the deponent read his deposition transcript. All corrections are to be noted on the preceding Errata Sheet.

Upon completion of the above, the Deponent must affix his signature on the Errata Sheet, and it is to then be notarized.

Please forward the signed original of the Errata Sheet to Jeffrey Friesen, Esq., for attachment to the original transcript, which is in his possession. Send a copy of same to all counsel, and also a copy to me.

Please return the completed Errata Sheet within thirty (30) days of receipt hereof.

Heidi H. Willis, RPR, CRR  
Court Reporter

**Flori Dep.**

**In The Matter Of:**

*AHERF v.*  
*PRICEWATERHOUSECOOPERS*

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*PAMELA FLORI*  
*May 7, 2004*

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***LEGALINK MANHATTAN***  
***420 Lexington Avenue - Suite 2108***  
***New York, NY 10170***  
***PH: 212-557-7400 / FAX: 212-692-9171***

**FLORI, PAMELA**



PAMELA FLORI

<p style="text-align: right;">Page 81</p> <p>1 Q. Do you have Exhibit 2590 as well?</p> <p>2 A. Yes.</p> <p>3 Q. And from this exhibit, if you would turn with</p> <p>4 me to page 36129.</p> <p>5 A. Okay.</p> <p>6 Q. Page 36129 is dated February 4th, 1997; is that</p> <p>7 correct?</p> <p>8 A. Yes.</p> <p>9 Q. And page 06390 is dated January 29th, 1997?</p> <p>10 A. Yes.</p> <p>11 Q. In the second bullet on page 36129, you've</p> <p>12 written, Given the increase in the hospital's</p> <p>13 off-balance sheet financing, it may be</p> <p>14 appropriate to consider a leverage covenant</p> <p>15 which includes operating leases. The</p> <p>16 RM intends to negotiate this type of leverage</p> <p>17 covenant if AGH violates the minimum</p> <p>18 unrestricted fund balance covenant at fiscal</p> <p>19 year-end 1997, close quotes.</p> <p>20 Do you see that?</p> <p>21 A. Yes.</p> <p>22 Q. I take it that is your summary of the comments</p> <p>23 that are contained on page 06390?</p> <p>24 MS. WYRICK: Objection.</p> <p>25 MR. COGAN: Objection.</p>	<p style="text-align: right;">Page 83</p> <p>1 Q. Once you completed this document, Exhibit 2590,</p> <p>2 once it was finalized, would it then become</p> <p>3 part of the overall offering that went to the</p> <p>4 committee?</p> <p>5 A. Yes.</p> <p>6 Q. And from that point in time forward, what would</p> <p>7 happen to the offering document, if you know?</p> <p>8 A. What do you mean what would happen?</p> <p>9 Q. After the committee considered the offering</p> <p>10 document, did you have an understanding as to</p> <p>11 what then would happen with the document?</p> <p>12 Would it go into a file, or was it destroyed</p> <p>13 or --</p> <p>14 MS. WYRICK: Objection.</p> <p>15 A. It went into the credit file.</p> <p>16 Q. And it went into the credit file for later</p> <p>17 reference by PNC employees?</p> <p>18 A. Yes.</p> <p>19 Q. Do you recall who was -- withdrawn.</p> <p>20 - - - -</p> <p>21 (Exhibit 2592 marked for identification.)</p> <p>22 - - - -</p> <p>23 Q. If I can show you what we just marked as</p> <p>24 Exhibit 2592, which is Bates numbered PNC 25024</p> <p>25 through PNC 25026, and, again, this is Exhibit</p>
<p style="text-align: right;">Page 82</p> <p>1 A. I'm not sure what you mean.</p> <p>2 Q. In this second sentence, in the second bullet</p> <p>3 underneath the subheading Transaction</p> <p>4 Structure --</p> <p>5 A. Yes.</p> <p>6 Q. -- on page 36129, you are trying to convey to</p> <p>7 the reader the relationship manager's strategy</p> <p>8 with respect to this minimum unrestricted fund</p> <p>9 balance covenant; correct?</p> <p>10 A. Yes.</p> <p>11 Q. Okay. And I take it you have determined what</p> <p>12 the relationship manager's strategy is through</p> <p>13 communications with relationship manager?</p> <p>14 A. Correct.</p> <p>15 Q. And at this point in time the relationship</p> <p>16 manager was Marcie Knittel for the AHERF</p> <p>17 account?</p> <p>18 MR. COGAN: AGH.</p> <p>19 MR. KRUSKO: Yes, for AGH.</p> <p>20 A. I'm sorry, what was the question?</p> <p>21 Q. Okay. At this point in time, January to</p> <p>22 February 1997 time frame, Marcie Knittel was</p> <p>23 the relationship manager for PNC's relationship</p> <p>24 with AGH; is that your understanding?</p> <p>25 A. Yes.</p>	<p style="text-align: right;">Page 84</p> <p>1 2592.</p> <p>2 Mrs. Flori, very briefly, do you</p> <p>3 recognize Exhibit 2592 as a letter from PNC</p> <p>4 Bank to AHERF informing AHERF that PNC has</p> <p>5 extended a line of credit that's referenced on</p> <p>6 the first page of the letter to March 15th,</p> <p>7 2000?</p> <p>8 MS. WYRICK: Objection.</p> <p>9 A. I would -- I would have to -- do you want me to</p> <p>10 read all through it?</p> <p>11 Q. I was just trying to save time by being</p> <p>12 cumulative. Let me ask you this: Do you</p> <p>13 recognize the form of this document?</p> <p>14 A. I do not.</p> <p>15 Q. Did you typically see letters that went to</p> <p>16 clients confirming that PNC had decided to</p> <p>17 provide financial assistance or render a credit</p> <p>18 enhancement?</p> <p>19 A. Not typically, no.</p> <p>20 Q. Do you see the middle paragraph on page 25024</p> <p>21 which states, We are pleased to advise you</p> <p>22 that, subject to the terms hereof and your</p> <p>23 execution of the acceptance hereto, we are</p> <p>24 extending the stated termination date of the</p> <p>25 letter of credit to March 15th, 2000, subject</p>

19 (Pages 81 to 84)



PAMELA FLORI

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1 to the following, and then some conditions are  
2 listed thereafter.

3 Do you see that?

4 A. Yes.

5 Q. And at the top of the first page, a letter of  
6 credit is referenced; correct? In the re  
7 section?

8 A. Yes, yes.

9 Q. So does it appear to you then that the purpose  
10 of this letter was to convey to AHERF that PNC  
11 Bank had decided to extend the letter of  
12 credit?

13 MS. WYRICK: Objection.

14 A. I assume that's what it is. I've never seen it  
15 before.

16 Q. Okay. Do you have any reason to believe that  
17 the letter of credit that is at issue in  
18 Exhibit 1745 was not renewed by PNC Bank?

19 A. No, I have no reason to believe that.

20 Q. Do you recall who at PNC was responsible for  
21 monitoring this credit after this letter of  
22 credit was renewed? By credit, I mean AGH.

23 A. The relationship manager.

24 Q. Was it your understanding that the relationship  
25 manager would, therefore, be responsible for

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1 determining whether any covenant in the letter  
2 of credit had been violated?

3 A. They -- the relationship manager was ultimately  
4 responsible. When financial statements came  
5 in, it was sent to an analyst who checked them  
6 and verified. So it was kind of a joint step,  
7 but the relationship manager was ultimately  
8 responsible.

9 Q. Would that analyst then in turn provide his or  
10 her assessment of covenant compliance as well  
11 as the financial statements?

12 MR. COGAN: Objection.

13 Q. To the relationship manager?

14 MR. COGAN: Objection.

15 A. Say that again?

16 Q. I believe you said that the relationship  
17 manager was responsible for determining  
18 covenant compliance for existing credits?

19 A. Correct.

20 Q. And I believe you testified that analysts would  
21 assist relationship managers in making those  
22 determinations?

23 A. Correct.

24 Q. Did you have an understanding in this time  
25 frame as to what the form of assistance those

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1 analysts provided to relationship managers?

2 A. We did the calculations. If it was a numerical  
3 calculation, like say a leverage ratio or a  
4 cash flow coverage ratio, we would do the  
5 calculations and give those to the relationship  
6 manager.

7 Q. And this is work that you recall performing  
8 separate and apart from the question whether  
9 you performed it for AHERF?

10 A. Yes.

11 Q. When you performed this work, would you in turn  
12 go back and look at credit memoranda to gain an  
13 understanding as to what could potentially be  
14 an issue?

15 A. When we were -- when you say performed work,  
16 you mean when we were checking covenants?

17 Q. Correct, when you were checking compliance at a  
18 later point in time.

19 A. No. We just went by the loan documents, what  
20 was in the document. We took that definition  
21 and calculated it based on that definition. By  
22 "we" I mean the credit analyst. I don't know  
23 what the relationship managers did.

24 Q. That at least was your practice?

25 A. Exactly.

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1 Q. Did you have access to offering memoranda  
2 specific to the underlying transactions?

3 A. Do you mean could we look at a credit offering?

4 Q. Correct.

5 A. Yes, yes.

6 Q. In connection with this covenant compliance  
7 work?

8 A. We could, yes. I don't know that we did, but  
9 we could.

10 Q. Can you turn with me to Exhibit 1745.

11 A. Okay.

12 Q. Can you turn with me to page 08315?

13 A. Okay.

14 Q. Do you see the subheading Credit Issues,  
15 particularly the subparagraph No. 1 (b)? Do  
16 you see that subparagraph?

17 A. Yes.

18 Q. The second sentence in that subparagraph  
19 states, AHERF's goal is to consolidate and  
20 integrate these operations into a state-wide  
21 and eventually a regional integrated health  
22 system.

23 Do you see that?

24 A. Yes.

25 Q. Was that consistent with your understanding in

20 (Pages 85 to 88)



PAMELA FLORI

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1 and change the wording in the analysis for what  
2 went into the final offering before it would go  
3 on to -- into the file.

4 So I don't know. I can't remember  
5 how I would have dated that, whether I would  
6 have dated it after, like at the time I made  
7 the correction or the time --

8 Q. Sure.

9 A. -- the time of the approval, the original, I'm  
10 not sure.

11 Q. I guess I'm talking about a different context  
12 though.

13 A. Oh, okay.

14 Q. And that is the context of you exchanging  
15 drafts of your memoranda with relationship  
16 managers.

17 A. Yes.

18 Q. In that context did you make it your practice  
19 to make sure that your drafts were properly  
20 dated?

21 A. Yes.

22 MR. COGAN: Objection.

23 Q. And you did so to make sure that you and the  
24 relationship manager would have an  
25 understanding as to which draft was currently

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1 the operative draft?

2 MS. WYRICK: Objection.

3 A. I dated it. I don't know if that was  
4 specifically the reason, but there was a date  
5 on there.

6 MR. KRUSKO: I don't have any further  
7 questions.

8 MR. COGAN: Nor do I. Thank you.

9 THE VIDEOGRAPHER: That marks the end  
10 of videotape No. 2 in the deposition of Pamela  
11 Flori. The time indicated is 3:02 p.m. Thank  
12 you very much.

13 ----

14 (The proceedings were concluded at 3:03 p.m.)

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1 COMMONWEALTH OF PENNSYLVANIA ) CERTIFICATE  
2 COUNTY OF ALLEGHENY ) SS:

3 I, Heidi H. Willis, RPR, CRR, a Court Reporter  
4 and Notary Public in and for the Commonwealth of  
5 Pennsylvania, do hereby certify that the witness,  
6 PAMELA FLORI, was by me first duly sworn to testify  
7 to the truth; that the foregoing deposition was taken  
8 at the time and place stated herein; and that the  
9 said deposition was recorded stenographically by me  
10 and then reduced to printing under my direction, and  
11 constitutes a true record of the testimony given by  
12 said witness.

13 I further certify that the inspection, reading  
14 and signing of said deposition were NOT waived by  
15 counsel for the respective parties and by the  
16 witness.

17 I further certify that I am not a relative or  
18 employee of any of the parties, or a relative or  
19 employee of either counsel, and that I am in no way  
20 interested directly or indirectly in this action.

21 IN WITNESS WHEREOF, I have hereunto set my hand  
22 and affixed my seal of office this 11th day of May,  
23 2004.

24

25

Notary Public

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1 COMMONWEALTH OF PENNSYLVANIA ) E R R A T A  
2 COUNTY OF ALLEGHENY ) S H E E T

3

4 I, Pamela Flori, have read the foregoing pages  
5 of my deposition given on Friday, May 7, 2004, and  
6 wish to make the following, if any, amendments,  
7 additions, deletions or corrections:

8 Page/Line Should Read Reason for Change

9

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In all other respects, the transcript is true and  
correct.

PAMELA FLORI

Subscribed and sworn to before me this  
\_\_\_\_ day of \_\_\_\_\_, 2004.

\_\_\_\_

Notary Public

AKF Reference No. HW80667

28 (Pages 117 to 120)

**Franz Dep.**

LORA FRANZ

Page 1

IN THE UNITED STATES DISTRICT COURT FOR THE  
WESTERN DISTRICT OF PENNSYLVANIA

THE OFFICIAL COMMITTEE OF )  
UNSECURED CREDITORS OF )  
ALLEGHENY HEALTH, EDUCATION & )  
RESEARCH FOUNDATION, )

Plaintiff, )

-vs- )

PRICewaterHOUSECOOPERS, L.L.P. )

Defendant. )

Civil Action  
No. 00-684

VOLUME I

VIDEOTAPE DEPOSITION OF: LORA FRANZ

DATE: November 22, 2002  
Friday, 9:00 a.m.

LOCATION: MANION McDONOUGH & LUCAS  
14th Floor, USX Tower  
Pittsburgh, PA 15219  
412-232-0200

TAKEN BY: Defendant

REPORTED BY: JoAnn M. Brown, RMR  
Notary Public  
AKF Reference No. JB72993

LORA FRANZ

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1 A. So, under was me. Over was a gentleman named  
2 Dan Thiry.

3 Q. Was he the first person to hold this position?

4 A. Yeah, and then he -- I don't really know what  
5 happened after I left, because then that's when  
6 they split the business office in two and he  
7 stayed with the Philly hospitals. So I don't  
8 know -- I'm foggy on that one.

9 Q. Fair enough.

10 A. What was the other one? Director of pro fee.  
11 Her name was Cynthia Malizia. Don't even ask  
12 me how to spell that. Then I think she either  
13 got fired or quit, and then I don't know who  
14 she was replaced with, because I didn't have  
15 much interaction with those people.

16 Then we had the director of  
17 reporting, financial reporting, which there  
18 were several analysts, and he was the person  
19 who would prepare the monthly patient  
20 accounting packet of reports, and he would be  
21 the person who probably, actually, in reality,  
22 spent the most time with Greg when you think  
23 about it, and his name was Russ Laing. I think  
24 it's L-A-I-N-G.

25 Who else can I tell you? Let's see.

1 Who did I leave out here? Let me  
2 think here.

3 Q. Was there a director of revenue enhancement?

4 A. Yeah. Bob Michalski.

5 Q. What was his responsibilities?

6 A. He -- every hospital has what they call a  
7 charge catalog, and if you could think about a  
8 hospital and all the different services they  
9 provide, usually it's, in a small hospital,  
10 8,000 line items. In a large hospital, I had  
11 one client that's 28,000 line items in this  
12 charge catalog. And the responsibility -- and  
13 if you think about how AHERF was, we didn't  
14 have that times one, we had that times seven.  
15 So his responsibility was making -- and  
16 there's -- the government requires you to put  
17 all different kinds of codes on each of those,  
18 and the codes change, and his responsibility  
19 was to make sure that we were using accurate  
20 codes, and I believe he -- although I'm not  
21 sure about this, he also had a responsibility  
22 of making sure that the pricing structure  
23 stayed in sync, you know, that we weren't  
24 charging like \$300 for a service at one  
25 facility and \$2.57 at another.

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1 We had a director of customer service who at  
2 one time was Linda Bond, and then it became  
3 John DeZulovich, and then Linda Bond -- they  
4 created another position called director of  
5 administrative support, and Linda became that  
6 person, and what she was responsible for was we  
7 were going through a conversion -- all of the  
8 Philly hospitals were on SMS but all different  
9 versions, so they were going through a process  
10 to get them all on the same version of SMS, and  
11 so she was the person from a user perspective  
12 representing patient financial services. She  
13 was the person who liaised with our  
14 information services department as well as  
15 the -- I think they had Ernst & Young was doing  
16 the -- was the consulting firm that they had  
17 doing the implementation for them. So she was  
18 the liaison between all those folks and us in  
19 terms of when we need to make decisions about  
20 tables and stuff like that.

21 And we had a director of like cash  
22 application, and, again, his name was Ron  
23 Becker at one point in time, and then he left,  
24 and I don't remember what we did with that  
25 position.

1 Q. Well, you said at the start that people were  
2 constantly changing. It certainly seems like  
3 there was a fair amount of turnover.

4 A. Oh, yeah.

5 Q. What accounted for that?

6 A. It was -- well, I think it was a couple things.  
7 It was a high -- it was a very highly-pressured  
8 environment. I've worked in several hospitals,  
9 and while I will always say I learned the most  
10 at AHERF just from the standpoint of the tools  
11 and the technology that we had available to us  
12 to do work, it was a very pressured  
13 environment. It was, what did you do for me  
14 today? What are you doing for me tomorrow? It  
15 was cash, cash, cash, cash. Where's our cash?  
16 You know, we couldn't collect accounts fast  
17 enough.

18 Q. Where was this pressure coming from?

19 A. Well, directly, it was coming from Greg.  
20 Indirectly, it was coming from Joe Dionisio and  
21 Sherif Abdelhak. I forget he has a last name.  
22 See, in Pittsburgh, he only has a first name.

23 Q. Like Madonna.

24 A. Yeah, exactly.

25 Q. When you say directly from Greg, did anyone --

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1 did Joe Dionisio or Sherif Abdelhak ever come  
2 down and sort of speak to you as the directors  
3 about this or was everything funneled through  
4 Greg?

5 A. Everything was funneled through Greg. Joe did  
6 come down and talk to us a couple times, but it  
7 was not about specific cash, just sort of, you  
8 know, his view from on top of the mount sort of  
9 thing. You know, he was talking to the masses.

10 But it was very -- it was a very,  
11 very pressure cooker environment, so I think it  
12 really accounted for a lot of -- you know,  
13 literally, one of the guys like had a heart  
14 attack while I was there. I mean, it was  
15 unbelievable to work in.

16 And then the other piece in terms of  
17 turnover was we had very, very, high standards.  
18 I mean, it was -- AHERF paid well but expected  
19 a lot, and so people who just weren't willing  
20 to give the 150 percent were gone pretty  
21 quickly. Sometimes their decision; sometimes  
22 our decision. I mean, it was -- I can't always  
23 say it was our decision.

24 Q. Did Greg ever express -- when he was applying  
25 the pressure, per se, did he ever express where

1 the Philadelphia contingency.

2 Q. Did that have an effect on your ability to do  
3 your job within PFSG, this sort of contention  
4 with the east?

5 A. Yeah. No, it did. I can give you one stupid  
6 example, because it still sticks in my mind  
7 after all these years.

8 We -- towards the end of the month,  
9 the whole goal was to get all of the cash  
10 collected, and at the end of the fiscal year,  
11 that was really the goal. So, Dan Thiry and I  
12 got on the corporate jet one Thursday. It was  
13 right before June 30, so it was probably  
14 June -- no, it probably was June 30, actually.  
15 Get on the corporate jet in the morning. We go  
16 out to Philadelphia. We stop at Independence  
17 Blue Cross, a couple of the HMO plans. We had  
18 probably \$3 or \$4 million of checks from these  
19 payors in our briefcases. We could not get any  
20 of the Philadelphia people to deposit that  
21 money in the bank accounts out there. They  
22 refused. Dan and I take the checks in the jet,  
23 hoping the jet doesn't go down, get back here  
24 to Pittsburgh. We have deposit tickets --  
25 these are for their hospitals. These are

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1 that he was getting pressure from the top or  
2 specific things that he was hearing from either  
3 people in operations or from management?

4 A. His -- and, again, you know, this is through  
5 the filter of Greg, but he was never shy about  
6 saying, you know, Joe says we have to get this  
7 kind of number this month, you know. We can't  
8 have the A/R, you know, grow. We've got to --  
9 you know, you've got to go beat on these  
10 accounts, blah, blah, blah, blah. He was never  
11 shy about saying that it came from Joe, and  
12 then occasionally, you know, I guess when he  
13 felt like he needed to drop another name, it  
14 would be Sherif's.

15 He also was under a fair amount of  
16 pressure from the Philadelphia people, because  
17 it was very -- our business office was very  
18 contentious. The Philadelphia people did not  
19 want their hospitals processed here in  
20 Pittsburgh, so the Philadelphia management  
21 people did not cooperate or get along well at  
22 all with the Pittsburgh people. So anytime  
23 that they felt they could jab Greg, they did.  
24 Anytime he felt he could jab them, he did. So  
25 some of the pressure also came from, you know,

1 deposits for their hospitals. We had them, you  
2 know, in our briefcases, but they were -- it  
3 was PNC, and it was -- you couldn't use the  
4 deposit tickets in eastern Philly, you could  
5 only use them here -- or in Eastern  
6 Pennsylvania. So we go to the airport, land,  
7 go to one of these like a little PNC branch  
8 somewhere, pull up to the drive-up window five  
9 minutes before they close with \$3 or \$4 million  
10 worth of checks. I'm sure they're probably  
11 still talking about.

12 But there was an example -- this was  
13 money for their accounts. I couldn't get any  
14 of them -- I mean, I had to physically go out  
15 there, take the corporate jet, run around to  
16 all the different hospitals, pick up -- I  
17 couldn't get any of those guys to help us.  
18 Then I couldn't get them to deposit the money.  
19 So there's sort of my own personal example of  
20 how ridiculous it sort of got on days.

21 Q. And this is an outgrowth of the consolidation  
22 which the people in the east just didn't want  
23 it to happen?

24 A. Right. Yeah. They just didn't like their  
25 accounts -- there was just a lot of contention

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1 unknown to us.  
 2 Q. Now, would Russ have the information that he  
 3 would need if he were to be the one that would  
 4 help substantiate those reserve percentages?  
 5 A. He could, yeah.  
 6 MR. LUFT: Objection.  
 7 A. He could by running simple queries out of the  
 8 accounts receivable system.  
 9 Q. Okay. But he would be the person that would do  
 10 this?  
 11 A. Yeah. He would not even probably even talk to  
 12 me about it, unless he saw some sort of problem  
 13 or he had a question or something he couldn't  
 14 resolve, but I don't remember ever, other than  
 15 the commercial -- maybe, the payment tracking  
 16 stuff that he had asked me, but I don't really  
 17 remember him asking me lots of questions about,  
 18 you know, any kind of reserving calculations he  
 19 was doing.  
 20 MR. TORBORG: Well, I guess it's  
 21 quarter till. Do you guys want to stop? We'll  
 22 go off the record.  
 23 THE VIDEOGRAPHER: We're now going  
 24 off the record. The time is 3:41.  
 25 ----

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1 (The proceedings were temporarily  
 2 adjourned at 3:41 p.m.)  
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1 COMMONWEALTH OF PENNSYLVANIA ) CERTIFICATE  
 2 COUNTY OF ALLEGHENY ) SS:  
 3 I, JoAnn M. Brown, RMR, a Court Reporter and  
 4 Notary Public in and for the Commonwealth of  
 5 Pennsylvania, do hereby certify that the witness,  
 6 LORA FRANZ, was by me first duly sworn to testify to  
 7 the truth; that the foregoing deposition was taken at  
 8 the time and place stated herein; and that the said  
 9 deposition was recorded stenographically by me and  
 10 then reduced to printing under my direction, and  
 11 constitutes a true record of the testimony given by  
 12 said witness.  
 13 I further certify that the inspection, reading  
 14 and signing of said deposition were NOT waived by  
 15 counsel for the respective parties and by the  
 16 witness.  
 17 I further certify that I am not a relative or  
 18 employee of any of the parties, or a relative or  
 19 employee of either counsel, and that I am in no way  
 20 interested directly or indirectly in this action.  
 21 IN WITNESS WHEREOF, I have hereunto set my hand  
 22 and affixed my seal of office this 26th day of  
 23 November, 2002.  
 24 \_\_\_\_\_  
 25 Notary Public

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1 COMMONWEALTH OF PENNSYLVANIA ) ERRATA  
 2 COUNTY OF ALLEGHENY ) SHEET  
 3  
 4 I, LORA FRANZ, have read the foregoing pages of  
 5 my deposition given on Friday, September 22, 2002,  
 6 and wish to make the following, if any, amendments,  
 7 additions, deletions or corrections:  
 8  
 9  
 10  
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 12  
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 16  
 17  
 18  
 19  
 20 In all other respects, the transcript is true and  
 21 correct.  
 22 \_\_\_\_\_  
 23 LORA FRANZ  
 24  
 25 Subscribed and sworn to before me this  
 26 \_\_\_\_\_ day of \_\_\_\_\_, 2002.  
 27 \_\_\_\_\_  
 28 Notary Public  
 29 AKF Reference No. JB72993

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IN THE UNITED STATES DISTRICT COURT FOR THE  
WESTERN DISTRICT OF PENNSYLVANIA

THE OFFICIAL COMMITTEE OF )  
UNSECURED CREDITORS OF )  
ALLEGHENY HEALTH, EDUCATION & )  
RESEARCH FOUNDATION, )

Plaintiff, )

-vs- )

PRICewaterhouseCOOPERS, L.L.P. )

Defendant. )

Civil Action  
No. 00-684

VIDEO TAPE

DEPOSITION OF: LORA FRANZ  
VOLUME II

DATE: December 4, 2002  
Wednesday, 9:20 a.m.

LOCATION: MANION McDONOUGH & LUCAS  
14th Floor, USX Tower  
Pittsburgh, PA 15219  
412-232-0200

TAKEN BY: Defendant

REPORTED BY: Claire Gross, CRR, RDR  
Notary Public  
AKF Reference No. Cg73107



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1 Q. Do you know if any analysis was done  
2 regarding those type of accounts as related  
3 to the reserve percentages?

4 MR. LUFT: Objection.

5 A. I remember talking about them with Russ at  
6 one point in time, but I don't know if he did  
7 any analysis. I don't know -- I remember  
8 talking about him as this was -- we were  
9 going to have to deal with it in terms of  
10 moving accounts in the amount of A/R to  
11 another financial class so we could isolate  
12 them realizing we weren't going to get paid  
13 from Medical Assistance on them. I remember  
14 having that discussion with him. But what he  
15 did with that information I don't know.

16 Q. I think you just answered my next question.  
17 I was going to ask you where does Medical  
18 Assistance -- I've seen that term. Is this  
19 the type of accounts we were talking about  
20 when we were talking about general assistance  
21 or general relief? Is it the same thing?

22 A. Medical Assistance is really Medicaid here in  
23 the State of Pennsylvania. At one point in  
24 time if you were to look at the -- any of the  
25 age trial balances for AHERF, you would see

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1 them grouped together. You would see the  
2 state Medical Assistance program along with  
3 general relief grouped into like a Medicaid  
4 or Medical Assistance rollup, sort of a payor  
5 rollup.

6 The managed Medicaid, when they moved  
7 folks into the managed care programs, they  
8 would always be a different classification.

9 After the general relief program  
10 ceased to exist, though, patients were then  
11 classified as self-pay, patient pay. They  
12 were moved out of that particular financial  
13 category, and Medicaid or Medical Assistance  
14 would simply be those patients who were not  
15 in a managed Medical Assistance program.

16 Q. Can you give me some idea of when these  
17 changes in the payor environment we've talked  
18 about, the general relief and then the  
19 movement of the Medicaid program into sort of  
20 a managed care Medicaid, when those took  
21 place?

22 A. The elimination of the county general  
23 assistance programs, I'm thinking that was  
24 around '97, sometime in '97 I'm thinking.  
25 The migration to managed care from the true

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1 Medicaid program happened over a course of  
2 time because what happened is each county  
3 would have different -- depending on how many  
4 managed care payors they had signed up that  
5 were going to do Medical Assistance, they  
6 would have different schedules about doing  
7 them.

8 I do recall Philadelphia was one of  
9 the pilot -- that area was one of the pilot  
10 sites, so I believe they started migrating  
11 those patients sooner than they did here in  
12 Pittsburgh.

13 So I would guess that that probably  
14 started in '96, '97 as well. More full-blown  
15 in '98, but again not all patients would go  
16 into these managed care organizations.

17 Q. About 60 percent of them would?

18 A. I would say about 60 percent of them.

19 Q. Would you agree with me that if AHERF did not  
20 alter its reserve percentages to take into  
21 account these changes in the payor  
22 environment, that there is a likelihood that  
23 the accounts receivable, the net accounts  
24 receivable, may be overstated?

25 MR. LUFT: Objection.

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1 A. Yes, that's possible.

2 Q. I want to follow up on a few things we talked  
3 about last time. You talked a little bit  
4 about the fact that you noticed a change from  
5 when you started and when you left AHERF  
6 about AHERF's management responsiveness to  
7 your need for additional resources.

8 A. Yes.

9 Q. I think you said originally it was kind of a  
10 belief that there was plenty of money to go  
11 around?

12 A. Uh-huh, absolutely.

13 Q. I wanted to sort of follow up on that, if I  
14 could. Just what was the general feeling  
15 when you started at AHERF in July of '96  
16 about sort of the capitalization of AHERF as  
17 a whole and its perceivability to kind of  
18 experiment with these technologies?

19 MR. LUFT: Objection.

20 A. When I was recruited basically Greg said to  
21 me that he viewed this business office as he  
22 was going to make it the premier organization  
23 in the country and, really money was no  
24 object from the standpoint of if we needed to  
25 invest in certain technologies, if we needed

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1 to invest in more people, that that really  
2 wasn't an issue.

3 Even I would fly out to Philadelphia,  
4 and people -- like all the other directors  
5 would fly out to Philadelphia probably a  
6 couple times a month on the corporate jets.  
7 I would make it a point to always come home,  
8 make one-day trips, but people who stayed  
9 over were staying at the Rittenhous, which is  
10 like a four or five-star hotel in  
11 Philadelphia.

12 So even as someone who did business  
13 on behalf of AHERF, you had very much the  
14 impression that this was a well-capitalized  
15 organization; and when there was a problem we  
16 just threw money at it until we could solve  
17 it.

18 In terms of hiring staff and  
19 recruiting management talent, if you look at  
20 the directors that were in the patient  
21 financial area, Greg paid a lot of money for  
22 us, and that was sort of the way it was.  
23 Anybody said they were going to leave, he  
24 threw more money at you. An interesting  
25 environment.

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1 Q. Is it fair to say there wasn't a big focus on  
2 cutting costs?

3 A. No. In fact, my initial job was to look at  
4 reengineering and redesigning, and when I  
5 would start to look at some of the  
6 productivity measures and the staffing levels  
7 and to say, for instance -- for instance,  
8 when I first got there the number of billers  
9 looked abnormally high.

10 One of the reasons was because they  
11 hadn't fully implemented the technology that  
12 would allow them to process more bills by  
13 having the system do some of the editing  
14 versus human beings.

15 But when I brought that up it was  
16 very much Greg was like no, no, we can't do  
17 that, we can't do that. So that was just the  
18 big source of my frustration, and that's  
19 really what led to me taking over the  
20 collection function was to say you're just  
21 not ready to look at these things, you're not  
22 ready to look at it from an efficiency  
23 standpoint, you are focused on effectiveness  
24 right now.

25 And so he just agreed with me, that

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1 he wasn't ready to look at it, could he make  
2 it more efficient from a cost perspective.

3 Q. As a general matter do you think that costs  
4 in the business office could have been cut  
5 without significantly affecting your  
6 effectiveness?

7 A. I believe there were some decisions that were  
8 made that were not necessarily as cost  
9 effective as they could be. The one that  
10 I'll mention is some of the extensive use of  
11 outsourcers.

12 I believe the outsourcers  
13 arrangement -- I'm guessing because I never  
14 saw the contracts -- but ten percent of what  
15 they were to recover. I mean, that would  
16 be -- eight to ten percent would be a normal  
17 range. I would have expected that we were  
18 paying outsourcers.

19 I believe there were situations where  
20 certain groups of accounts, had we been able  
21 to hire people towards the end, we could have  
22 done that cheaper than paying someone a  
23 contingency to collect those accounts.

24 Q. You also talked last time about the fact that  
25 the end of your tenure at AHERF AHERF was

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1 sort of running out of money?

2 A. Yes.

3 Q. And that I think you specifically mentioned  
4 you didn't have the money to pay a credit  
5 bureau vendor?

6 A. Uh-huh.

7 Q. Can you think of anything else that the  
8 running out of money did to hinder your  
9 collection efforts?

10 A. Well, I can distinctly remember one day when  
11 because we hadn't paid the vendor who  
12 provided us with the bill forms -- which, not  
13 to make you all hospital billing experts, but  
14 hospitals bill on a U-B 92 bill form. It's a  
15 very special-looking red and white form.

16 Whenever we would have to submit a  
17 paper claim, a nonelectronic claim, we would  
18 have to produce claims on this form.

19 With the commercial payors many of  
20 our commercial payers didn't accept  
21 electronic transmission, so we would have to  
22 print claims.

23 Well, because we hadn't paid the  
24 vendor who supplied us with these forms, they  
25 actually went, I believe it was, like two,

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1 accounts that are really 180 days old that  
 2 look like they are 30 days old, and it would  
 3 affect -- if your reserves were based on an  
 4 aging it would definitely have impact on it.  
 5 Q. That was going to be my follow-up question.  
 6 Do you recall whether there was any system of  
 7 automatic reaging in the Philadelphia area  
 8 hospitals?  
 9 A. They were all on SMS, and I can't remember --  
 10 again, it would have depended on how you did  
 11 the rebill about whether -- because there is  
 12 like sort of two functions, a reprint and a  
 13 rebill.  
 14 A rebill would go in -- a reprint  
 15 would only regenerate the claim basically.  
 16 Think of it as copying the claim.  
 17 A rebill goes in and recalculates the  
 18 contractual allowance, sort of starts all  
 19 over again. Depending on how they were  
 20 running the aging reports -- when I ran aging  
 21 reports I always aged from discharge day, so  
 22 it didn't make any difference how many times  
 23 we would rebuild or what we had done to it.  
 24 So the reports I ran to see how old accounts  
 25 were were always by discharge date. When I

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1 February of '97 because he would want to get  
 2 that in before June, so that would be a good  
 3 time to do one.  
 4 His pattern was if it worked once  
 5 I'll do it again, so he probably did it  
 6 again. January, February time frame would be  
 7 a good time to do those rebillings to get  
 8 money in before the end of the fiscal year,  
 9 so I'm guessing that we always did them  
 10 around that time period.  
 11 Q. When you started at AHERF, walked in the door  
 12 and then when you assumed the collection  
 13 function, do you recall -- I think you  
 14 testified last time there was a lot of old  
 15 accounts on the books?  
 16 A. Yes.  
 17 Q. When I say on the books, I should say in the  
 18 patient accountings system because that's  
 19 really what you're more familiar; right?  
 20 A. Uh-huh.  
 21 Q. Not what's on the general ledger?  
 22 A. Right.  
 23 Q. Do you remember anyone saying that there was  
 24 a certain amount of water in the receivables?  
 25 Do you remember a discussion?

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1 started I did see some agings being run by  
 2 bill date.  
 3 Q. Which would be if you're attempting to  
 4 establish your reserves based on aging, that  
 5 would be a big problem?  
 6 A. Yes, because --  
 7 MR. LUFT: Objection.  
 8 A. -- Bill date can have little relevance to  
 9 discharge date. And the payor statute use  
 10 the run on discharge date, not our bill date.  
 11 Q. You spoke of sort of a mass rebilling. I  
 12 think there may have been more than one.  
 13 A. There were a series of them.  
 14 Q. Do you remember when?  
 15 A. Well, there was one like when I started in  
 16 July of '96. I seem to remember they were in  
 17 the throes of one right either shortly after  
 18 that or right around that same time because  
 19 people were just consumed with the work that  
 20 it was creating.  
 21 And then, as I said, we probably did  
 22 another one. Greg always liked to do them  
 23 sort of when he felt it could impact his  
 24 end-of-the-year results, so I'm guessing we  
 25 probably did another one in January or

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1 A. I never heard that term water.  
 2 Q. Okay.  
 3 A. I would remember that one because that  
 4 doesn't make any sense to me.  
 5 Q. Do you remember any conversations about the  
 6 fact that there were a lot of old accounts  
 7 still on the books or still on the inpatient  
 8 accounting system?  
 9 A. Yes, because at that time we were running  
 10 multiple systems. The old Buck, Elkins and  
 11 St. Chris Hospitals were on Keane, so there  
 12 were -- that was like a really old system.  
 13 Then they had switched to SMS, and  
 14 they were running a different version than  
 15 Hahnemann or Medical College, and so when you  
 16 went to look for receivables you had to look  
 17 in a lot of different places.  
 18 I do remember having a conversation  
 19 with Greg, and it really was around when we  
 20 started to take some of those big waves of  
 21 getting rid of the old moldy accounts about  
 22 his saying that, you know, these need to go.  
 23 I mean we all knew it. There was no  
 24 documentation. It just needed to go. That  
 25 was the old issue of writing them off in

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1 waves.

2 Q. Was there discussion that in addition to the

3 fact these were old accounts, they were also

4 likely uncollectible?

5 A. I don't remember specifically somebody saying

6 they are uncollectible, but when you say they

7 are old, I guess the industry, old equals

8 uncollectible in a sort of sick way.

9 The way the industry works is the

10 older it is the less collectible it is, so by

11 saying they are old in your mind, you say

12 they are less collectible.

13 Q. Do you remember if there was ever an effort

14 to sort of quantify the amount of old and

15 uncollectible accounts that were still on the

16 various patient accounting systems?

17 A. Yes, there was. I think Bill Gedman was

18 working on that, G-E-D-M-A-N. There must

19 have been. The reason I say that, because

20 when we decided to write them off, we were

21 given targets, like at this time we can only

22 write off 15 million -- I can't remember. We

23 were given targets. To give us targets they

24 must have done some analysis to show the

25 total size of it.

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1 My job in addition to getting them

2 written off was just to keep track of how we

3 were against that target and not to exceed

4 it.

5 Q. Why were you given, if you know, targets

6 rather than just writing it off all at once?

7 A. The explanation I was given by Greg was that

8 this was the approval he had received from

9 Joe that they didn't want to take it all at

10 once, that he wanted to take it in smaller

11 bite-sized chunks. So that was the

12 explanation I was given.

13 Q. So at the time they were written off -- let's

14 focus on the first time a chunk was written

15 off. There was a lot more uncollectible than

16 just what was written off at that time?

17 A. Right. That was the ones -- yes.

18 MR. LUFT: Objection.

19 A. The known uncollectible was much bigger.

20 Q. Do you remember any specific numbers that

21 Gedman might have come up with in trying to

22 quantify the amount of the old and/or

23 uncollectible accounts?

24 MR. LUFT: Objection.

25 A. I don't remember specifically. That one

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1 exhibit that I had seen the other day, that

2 looked to be pretty factual as I remember it.

3 That looked like to be Gedman's numbers that

4 he had come up with before.

5 Q. Do you remember there was somewhere in the

6 neighborhood of 80 to 100 million dollars?

7 A. 80 was always a number I remembered, yes.

8 Q. Do you remember a specific figure of \$84

9 million?

10 A. I know it was over 80, yes. It was like --

11 80 was like the number that we had as a

12 target in our mind.

13 Q. Now, besides just sort of oral conversations

14 regarding the 80 million, do you remember --

15 other than sort of the documents we showed

16 you last time, do you remember any sort of

17 analysis that was done prior to the writeoffs

18 that quantified this 80 million figure?

19 A. Not unless it was something that Bill Gedman

20 had done or Russ had done. There were only

21 like about three people, I think, that even

22 had access into some of the old -- the Keane

23 system -- K-E-A-N-E -- that was used by the

24 other facilities, so I couldn't even get

25 reports on some of those accounts. So I have

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1 to assume that it was Bill or Russ that had

2 done some of the analysis.

3 Q. Do you recall any discussion of the fact that

4 some of these accounts that comprise the \$80

5 million were past statute accounts?

6 A. Yes. Well, I guess I could say it this way,

7 the issue was there was very little

8 documentation on them. We were beyond the

9 billing statute, so if I can't document that

10 I ever billed the payor, it's a statute -- I

11 have nothing to defend myself.

12 The payor can reject it, and I have

13 no documentation to go back and say, yes, no,

14 we billed it on this date and here's the

15 receipt or here's your acknowledgement or

16 anything like that. So definitely there had

17 to be statute losses in that pile.

18 MR. TORBORG: Let me mark this as

19 Exhibit 905.

20 ---

21 (Deposition Exhibit 905 marked for

22 identification.)

23 ---

24 BY MR. TORBORG:

25 Q. For the record, Exhibit 905 is a document



LORA FRANZ

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1 Bates numbered GOV 43674 through 81, and it's  
2 an October 11, '96 memo from Greg Snow to Joe  
3 Dionisio and Charles Morrison. If you could  
4 take a look at that.

5 A. (Witness reviews document.)

6 Q. First question is have you ever seen this  
7 document before?

8 A. No.

9 Q. If you look at the first sentence of the  
10 document, Mr. Snow writes, Past statute  
11 accounts are receivables whose balance is,  
12 have not been resolved within predetermined  
13 time frames as set by the payors. And then  
14 he lists the time frames below.

15 I think last time you said that there  
16 were two ways in which an account can become  
17 past statute, the first of which it's not  
18 billed with any predetermined time frame.  
19 The second would be that it's not paid or  
20 resolved.

21 A. Well, the second one would be if it is not  
22 billed within the time frame. That is the  
23 first one. The second one would be if it had  
24 been denied and it wasn't appealed within the  
25 appeal time frames.

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1 Q. So there could be accounts of -- let's take  
2 an example. If you look at Medical  
3 Assistance there in that column it says  
4 twelve months. There could be a Medical  
5 Assistance account that was appealed that was  
6 greater than twelve months that was still  
7 potentially collectible; is that correct?

8 A. If we filed the appeal within the time  
9 frames. If we hadn't filed the appeal, then  
10 we lose our right to appeal basically, and it  
11 becomes uncollectible. Perhaps not as a  
12 statute loss, but uncollectible, right.

13 Q. So if you've got, for example, Medical  
14 Assistance receivable on the accounting  
15 system or on patient accounting system for  
16 which there has been no appeal filed, and  
17 it's over twelve months old, that account is  
18 not collectible?

19 A. If it's over twelve months old -- well, some  
20 of them could still be collectible, and  
21 here's why I say that. Remember Medical  
22 Assistance -- take the bad one, Medical  
23 Assistance. Some of those patients could be  
24 qualified -- could have taken us three months  
25 to get them qualified for Medical Assistance.

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1 Q. Okay.

2 A. So if they had a discharge date of January 1,  
3 and it took us until March 15 to get them  
4 qualified, we have twelve months from the  
5 time they get qualified, not -- for that  
6 particular group of patients. So there are  
7 some patients in the Medicaid financial  
8 classes that would still be collectible after  
9 the twelve months because it took us three  
10 months for the state to determine that they  
11 were eligible.

12 Q. How about for the other four classes listed  
13 there, same question? Do I need to repeat  
14 the question?

15 A. Yes, repeat the question. I'm sorry.

16 Q. Let's take managed care.

17 A. That's a good one.

18 Q. If you had a managed care account on the  
19 patient accounting system that was over  
20 twelve months old from the date that it was  
21 either billed or discharged and has not been  
22 an appeal filed on it, would that account be  
23 uncollectible?

24 A. No appeal filed on it and no payments made on  
25 it?

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1 Q. Yes.

2 A. It would be suspicious, yes. I would put  
3 that in the suspicious category of being a  
4 potential loss, yes.

5 Q. Okay. How about same question, do I need to  
6 repeat the question about applying it to the  
7 commercial class? I'm going to ask you about  
8 all the classes.

9 A. The commercial class is kind of interesting  
10 that he would have a time frame on here  
11 because truly a piece of the commercial -- we  
12 talked about this before, those silent POs  
13 and repricer agreements.

14 So there is a time frame associated  
15 with those because we had contracts with  
16 them. It's this whole issue about some of  
17 the commercial financial classes were  
18 actually -- needed to be collateralized  
19 because of these silent PPO and repricer  
20 arrangements.

21 But to make a categorical statement  
22 that all of commercial had a statute to it,  
23 I'm not sure I understand why one would say  
24 that because if it's truly a commercial that  
25 we have no contract with, there is no

LORA FRANZ

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1 COMMONWEALTH OF PENNSYLVANIA ) CERTIFICATE

2 COUNTY OF ALLEGHENY ) SS:

3 I, Claire Gross, RDR, a Court Reporter and  
 4 Notary Public in and for the Commonwealth of  
 5 Pennsylvania, do hereby certify that the witness,  
 6 LORA FRANZ, was by me first duly sworn to testify to  
 7 the truth; that the forgoing deposition was taken at  
 8 the time and place stated herein; and that the said  
 9 deposition was recorded stenographically by me and  
 10 then reduced to printing under my direction, and  
 11 constitutes a true record of the testimony given by  
 12 said witness.

13 I further certify that the inspection, reading  
 14 and signing of said deposition were NOT waived by  
 15 counsel for the respective parties and by the  
 16 witness.

17 I further certify that I am not a relative or  
 18 employee of any of the parties, or a relative or  
 19 employee of either counsel, and that I am in no way  
 20 interested directly or indirectly in this action.

21 IN WITNESS WHEREOF, I have hereunto set my hand  
 22 and affixed my seal of office this 6th day of  
 23 December, 2002.

24 \_\_\_\_\_  
 25 Notary Public

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1 COMMONWEALTH OF PENNSYLVANIA ) E R R A T A  
 2 COUNTY OF ALLEGHENY ) S H E E T

3 I, LORA FRANZ, have read the forgoing pages of  
 4 my deposition given on Wednesday, December 4, 2002,  
 5 and wish to make the following, if any, amendments,  
 6 additions, deletions or corrections:

7 Page/Line Should Read Reason for Change

8  
 9  
 10  
 11  
 12  
 13  
 14  
 15  
 16  
 17  
 18  
 19

20 In all other respects, the transcript is true and  
 21 correct.

22 \_\_\_\_\_  
 23 LORA FRANZ

24 Subscribed and sworn to before me this  
 25 \_\_\_\_\_ day of \_\_\_\_\_, 2002.

\_\_\_\_\_  
 Notary Public  
 AKF Reference No. Cg73107

**Frazier Dep.**



Amy Frazier

Page 1

IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF PENNSYLVANIA

THE OFFICIAL COMMITTEE OF  
UNSECURED CREDITORS OF  
ALLEGHENY HEALTH, EDUCATION  
& RESEARCH FOUNDATION,  
Plaintiff,

vs.

Civil Action

PRICEWATERHOUSECOOPERS,  
LLP,  
Defendant.

No. 00-684

Videotaped Deposition of AMY  
FRAZIER, called for examination under the  
Applicable Rules of Federal Civil Procedure,  
taken before me, Michele E. Eddy, a Registered  
Professional Reporter and Notary Public in and  
for the State of Ohio, pursuant to notice and  
stipulations of counsel, at the offices of  
Jones Day, 222 East 41st Street, Suite 400, New  
York, New York, on Tuesday, the 8th day of  
June, 2004, at 9:00 a.m.

- - - - -

Amy Frazier

<p style="text-align: right;">Page 38</p> <p>1 was a model at AGH that could be used.</p> <p>2 Q. You recall that from discussions</p> <p>3 with the C&amp;L engagement team?</p> <p>4 A. At least discussions or overhearing</p> <p>5 their discussions, something to that effect. 09:49:06</p> <p>6 Q. Do you recall anything more about</p> <p>7 that topic at all?</p> <p>8 A. No.</p> <p>9 MR. RYAN: In 1996 still?</p> <p>10 Q. In connection with the 1996 audit? 09:49:15</p> <p>11 A. No.</p> <p>12 Q. You don't recall anything about it</p> <p>13 in connection with the 1995 audit?</p> <p>14 A. No.</p> <p>15 Q. Is that right, what I just said was 09:49:21</p> <p>16 right?</p> <p>17 A. Taking into consideration the</p> <p>18 points that I made that --</p> <p>19 Q. We're going too far.</p> <p>20 In connection with 1995, you don't 09:49:32</p> <p>21 recall anything about applying AGH's reserve</p> <p>22 percentages to any other hospitals, is that</p> <p>23 right?</p> <p>24 A. That's correct.</p> <p>25 Q. Referring you back to the note that 09:50:12</p>	<p style="text-align: right;">Page 40</p> <p>1 unadjusted differences in evaluating the</p> <p>2 reasonableness of the financial statements</p> <p>3 taken as a whole. And it's summarized at the</p> <p>4 completion of the audit.</p> <p>5 Q. It's a document that C&amp;L creates -- 09:52:04</p> <p>6 or created in these years that you were working</p> <p>7 on the AHERF audit?</p> <p>8 A. It is a document that members of</p> <p>9 the engagement team would complete as part of</p> <p>10 that, yes. 09:52:16</p> <p>11 Q. And if I use the word SUD, S U D,</p> <p>12 today, you and I will understand each other</p> <p>13 that I'm referring to the summary of unadjusted</p> <p>14 differences?</p> <p>15 A. Yes. 09:52:33</p> <p>16 Q. And if you use it, I'll understand</p> <p>17 the same thing?</p> <p>18 A. Yes.</p> <p>19 Q. Thanks.</p> <p>20 Do you recall being involved in 09:52:43</p> <p>21 posting to the SUD the difference or the</p> <p>22 adjusted difference mentioned in the note?</p> <p>23 A. I know because I was out on</p> <p>24 maternity leave during the completion</p> <p>25 procedures of the audit, so I really have no 09:53:01</p>
<p style="text-align: right;">Page 39</p> <p>1 we just read a sentence from, it continues with</p> <p>2 the words, "This reserve calculated by C&amp;L was</p> <p>3 compared to the reserve booked by the client,</p> <p>4 the difference between the reserves," and there</p> <p>5 is an S on that word, "was then reduced by 15 09:50:35</p> <p>6 percent of unapplied PIP cash at 6-30-95 to</p> <p>7 obtain the adjusted difference.</p> <p>8 "C&amp;L then used the adjusted</p> <p>9 difference to the amount to be posted to the</p> <p>10 summary of unadjusted differences." 09:50:52</p> <p>11 How did I do reading that one?</p> <p>12 A. I agree with what you've read.</p> <p>13 Q. Do you recall this event, that is</p> <p>14 applying -- or reducing, rather, the difference</p> <p>15 between the reserve calculations by 15 percent 09:51:13</p> <p>16 of unapplied PIP cash at 6-30-95 in connection</p> <p>17 with your 1995 audit work?</p> <p>18 A. No, I do not recall.</p> <p>19 Q. Tell me what the summary of</p> <p>20 unadjusted differences is. 09:51:37</p> <p>21 A. It is a schedule in which</p> <p>22 adjustments that the engagement team has</p> <p>23 concluded are different from the reported</p> <p>24 numbers of the client, that there is a schedule</p> <p>25 that summarizes that information for those 09:51:49</p>	<p style="text-align: right;">Page 41</p> <p>1 recollection of posting anything to the SUD.</p> <p>2 Q. That may be helpful to me and</p> <p>3 perhaps, at least with respect to your time</p> <p>4 with us, helpful to you.</p> <p>5 Tell me, if you would, when you 09:53:12</p> <p>6 recall going out on maternity leave in the</p> <p>7 calendar year of 1995, if it was in the</p> <p>8 calendar year that you did so?</p> <p>9 A. It was within the first -- early</p> <p>10 part of September. My son was born on 09:53:27</p> <p>11 September 24th. I took at least two weeks off.</p> <p>12 I basically completed my work on a Sunday and</p> <p>13 I -- I think it was shortly after this --</p> <p>14 towards the end of some of the field work, but</p> <p>15 I can't -- without a calendar -- I can tell you 09:53:53</p> <p>16 it was a Sunday, a couple of weeks before my</p> <p>17 son was born.</p> <p>18 Q. You're describing a Sunday which</p> <p>19 would have been the last day of work before the</p> <p>20 birth of your son? 09:54:05</p> <p>21 A. Yes.</p> <p>22 Q. You did not come back to work that</p> <p>23 calendar year, is that fair to say?</p> <p>24 A. No, I did.</p> <p>25 Q. When did you come back? 09:54:10</p>

11 (Pages 38 to 41)

Amy Frazier

<p style="text-align: right;">Page 42</p> <p>1 A. Sometime in November.</p> <p>2 Q. But the final audit work had been</p> <p>3 completed with respect to fiscal year '95 at</p> <p>4 AHERF at that time?</p> <p>5 A. It was certainly after any audit 09:54:23</p> <p>6 committee meetings. I don't know, there may</p> <p>7 have been other ancillary reports that were</p> <p>8 still ongoing that were not completed by then.</p> <p>9 Q. You don't recall any as you sit</p> <p>10 here today, though, do you? 09:54:40</p> <p>11 A. I know the A-133 compliance reports</p> <p>12 weren't done. But, beyond that, I'm not sure.</p> <p>13 Q. Do you know why the AGH reserve</p> <p>14 percentages -- strike that.</p> <p>15 Given your testimony this morning, 09:55:16</p> <p>16 you have no idea why the AGH percentages may</p> <p>17 have been applied to the aged receivable</p> <p>18 buckets of other hospitals in 1995, am I right?</p> <p>19 A. I don't recall, no.</p> <p>20 Q. Do you know why it was AGH's 09:55:37</p> <p>21 reserve percentages that were considered for</p> <p>22 application or discussed in connection with the</p> <p>23 1996 audit work for application to other</p> <p>24 hospitals' aged receivable buckets?</p> <p>25 A. Yes. 09:55:56</p>	<p style="text-align: right;">Page 44</p> <p>1 was familiar that we had done such project. I</p> <p>2 don't know whether or not that also relates to</p> <p>3 the length of time that we had been the</p> <p>4 auditor, but I am just aware of this other</p> <p>5 project. 09:57:34</p> <p>6 Q. Was that an agreed upon procedures</p> <p>7 project of some kind?</p> <p>8 A. I don't know.</p> <p>9 Q. Do you know who did it, the project</p> <p>10 that you referred to? 09:57:47</p> <p>11 A. I don't know.</p> <p>12 Q. That is who at Coopers &amp; Lybrand</p> <p>13 was involved?</p> <p>14 A. I don't recall.</p> <p>15 Q. Do you know when it was done? 09:57:51</p> <p>16 A. I don't recall.</p> <p>17 MR. JONES: Why don't we take our</p> <p>18 morning break here.</p> <p>19 MR. RYAN: Sure.</p> <p>20 THE VIDEOGRAPHER: Off the record 09:58:01</p> <p>21 at 10:00.</p> <p>22 (Recess had.)</p> <p>23 THE VIDEOGRAPHER: Back on the</p> <p>24 record, 10:11.</p> <p>25 - - - - -</p>
<p style="text-align: right;">Page 43</p> <p>1 Q. Why is that?</p> <p>2 A. It was known as a well organized</p> <p>3 receivable area that had been fairly successful</p> <p>4 in their collections historically. We had</p> <p>5 looked at those reserve percentages when they 09:56:12</p> <p>6 first implemented them and the methodology of</p> <p>7 how they had aggregated the -- to actually use</p> <p>8 them. So I know that there was at least a</p> <p>9 level of familiarity with how they had been</p> <p>10 accumulated over the time. 09:56:34</p> <p>11 Q. From -- I'm sorry.</p> <p>12 A. So that was a measure of why we</p> <p>13 would at least consider the information that</p> <p>14 they had used to develop those percentages.</p> <p>15 Q. And the familiarity is borne of the 09:56:47</p> <p>16 fact that the Allegheny General Hospital, or</p> <p>17 AGH, had been a part of AHERF and, before it,</p> <p>18 AHSI, for quite some time and Coopers &amp; Lybrand</p> <p>19 had more familiarity with AGH than perhaps</p> <p>20 certain other of the AHERF hospitals, is that 09:57:06</p> <p>21 what you're saying?</p> <p>22 A. I'm just -- I'm saying it from the</p> <p>23 standpoint of there was a specific project at</p> <p>24 one point that we had been involved when they</p> <p>25 first implemented the methodology at AGH, and I 09:57:18</p>	<p style="text-align: right;">Page 45</p> <p>1 (Thereupon, Deposition Exhibit 4416</p> <p>2 was marked for purposes of</p> <p>3 identification.)</p> <p>4 - - - - -</p> <p>5 Q. Miss Frazier, we're going to mark a 10:10:48</p> <p>6 new exhibit and ask you to review it briefly</p> <p>7 with me. The exhibit number is 4416.</p> <p>8 It is a document that is headed</p> <p>9 with the phrase Allegheny Health, Education and</p> <p>10 Research Foundation discussion document, 10:11:16</p> <p>11 capabilities and expertise dash survey of</p> <p>12 external document slash consulting firms.</p> <p>13 It is, I think, four pages in</p> <p>14 length.</p> <p>15 Have you ever seen this document 10:11:40</p> <p>16 before?</p> <p>17 A. No.</p> <p>18 Q. On the page that ends with the</p> <p>19 Bates number 215523, there is a firm name that</p> <p>20 reads Coopers &amp; Lybrand at the top of the page. 10:11:45</p> <p>21 Do you see that?</p> <p>22 A. Yes.</p> <p>23 Q. It gives the sites or the cities in</p> <p>24 which Coopers &amp; Lybrand has offices in the</p> <p>25 State of Pennsylvania, at least for some time 10:12:00</p>

12 (Pages 42 to 45)